



August 17, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 29429

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

I write with regard to the FDIC notice of proposed rulemaking on deposit insurance assessments. I appreciate the opportunity to comment on whether Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

Advances are not volatile liabilities for FHLBank members. FHLBank advances have pre-defined, understood, and predictable terms. Unlike deposits, advances do not evaporate due to circumstances outside of the control of an FHLBank member. Experience has shown that deposits may be lost due to disintermediation arising from a variety of factors. While some institutions can look to Wall Street, the money and capital markets have not functioned well as long-term, stable providers of wholesale funds to the community bank members of the Federal Home Loan Bank System.

As set by Congress, the primary purpose of the FHLBank System is to provide a source of long-term liquidity for FHLBank members. Throughout their 75-year history, the FHLBanks have performed this mission successfully. The FHLBanks are a stable, reliable source of funds for member institutions. It would be illogical to include more than 8,200 banks' FHLBank advances in the definition of volatile liabilities given their stability, reliability, and the beneficial effect of such funding on members' business plans. I urge the FDIC not to include Federal Home Loan Bank advances as volatile liabilities.

Deposit insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. Banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are funded. The professional and capable FDIC examination staff is better suited to determining a bank's risk profile than an inflexible formula imposed on all insured institutions, regardless of circumstance.

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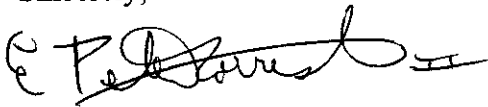
Discouraging borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to the perverse effect of increasing risks to FHLBank members by forcing institutions to look to alternative, often more costly wholesale funding sources that are demonstrably more volatile, thereby reducing profitability and increasing liquidity risk.

Penalizing the use of advances through the imposition of insurance premiums also would conflict with the intent of Congress in establishing the FHLBanks, in opening membership in FHLBanks to commercial banks in FIRREA, and, more recently, in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances. The FHLBanks' mission is to provide financial institutions with access to low-cost funding so they may adequately meet communities' credit needs to support homeownership and community development. Charging higher assessments to those banks utilizing advances would, in effect, use the regulatory process to vitiate the FHLBanks' mission as established and repeatedly reaffirmed by the Congress.

In recent years, Congressional Committees and principal sponsors of FDIC reform expressed specific concerns that the FDIC, in developing a risk-based insurance assessment proposal, not adversely affect advances. The Congressional intent has been expressed in both the House and Senate on a bi-partisan basis. The legislative history indicates that the FDIC should not charge premiums based on an institution's use of advances. In addition, a regulatory and legal structure is already in place to ensure collaboration between the FDIC and the FHLBanks.

The cooperative relationship between the FHLBanks and member financial institutions has worked remarkably well for 75 years. FHLBank advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks throughout the nation to remain competitive. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have access to guaranteed liquidity. Penalizing financial institutions for their cooperative relationship with the FHLBanks would result in their being less competitive, limit credit availability, and limit their liquidity, all for no justifiable economic or public policy reason. I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Peter Forrestel II", with a stylized flourish at the end.

E. Peter Forrestel II
President and CEO